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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2018/2019

ULE2612 – LAW AND ECONOMICS

(All Sections / Groups)

1 JUNE 2019

Reading Time: 9.00 a.m. – 9.15 a.m.

(15 Minutes)

Answering Time: 9.15 a.m. – 12.15 p.m.

(3 Hours)

INSTRUCTIONS TO STUDENT

1. Students will have **fifteen minutes** during which they may read the paper and make rough notes **ONLY** in their question paper. Students then have the remaining **THREE HOURS** in which to answer the questions.
2. This Question paper consists of 4 pages with 4 questions only.
3. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
4. Students are not allowed to bring in any statute or calculator into the Examination Hall.
5. Please write all your answers in the Answer Booklet provided.

QUESTION 1

- (a) The free market is said to be a great regulator of supply and demand whenever there is a change in the market.

Using a suitable diagram, explain how the market for sugary beverages will respond when the Malaysian government imposes a sugary tax of 40 sen per unit. In your explanation, you must indicate what happens if the market price remains initially at the old price, and what will producers do if they operate in a free market.

(12 marks)

- (b) The Malaysian government currently sets the minimum wage at RM1100 per month.

With the help of a suitable diagram and assuming that the minimum wage is above the market clearing price of labour of low-skilled labourers, explain why such an arrangement may not be considered efficient.

(13 marks)

(Total: 25 marks)

Continued...

QUESTION 2

Choose either (A) or (B).

- (A)(i) The Malaysian Land Acquisition Act 1960 confers upon a state authority the power to acquire a piece of land from a private owner without bargaining but with compensation “for any public purpose” or “for any purpose which is beneficial to the economic development of Malaysia and any part thereof or to the public generally or any class of the public.”

The Malaysian government is in the process of building an East Coast Rail Link (ECRL) from Kota Bahru to Port Klang.

With reference to a suitable law and economic theory, explain in detail why the Malaysian government would need to rely on the Land Acquisition Act 1960 to proceed with the ECRL project.

(17 marks)

- (ii) Explain what Garrett Hardin meant by “Tragedy of the Commons”.

(8 marks)

(Total: 25 marks)

~~~~~ OR ~~~~~

- (B) Darci, the promisor, enters into a contract with Anglica, the promisee, to sell to the promisee her famous puppet doll named Edna for the price of  $P_1$ , which the promisee values at  $V_1$ . However before the property changes hand, the promisor decides to sell Edna to Shin for  $P_2$ , whereby  $P_2 > P_1$ .

- (i) Using the above scenario and figures, explain the theory of efficient breach.

(4 marks)

- (ii) Show that when damages are set at the expectation measure, breaches are efficient breaches.

(16 marks)

- (iii) Explain how some legal scholars misunderstood the theory of efficient breach as a positive theory.

(5 marks)

(Total: 25 marks)

**Continued...**

**QUESTION 3**

Answer either (A) or (B).

- (A)(i) Explain in detail the three degrees of price discrimination and identify whether they are efficient from a microeconomic point of view.

(18 marks)

- (ii) Discuss possible strategies the government can take to overcome the ill-effects of monopoly power of ordinary monopoly and natural monopoly.

(7 marks)

(Total: 25 marks)

~~~ OR ~~~

- (B)(i) With a suitable model, explain how a Pigou tax may be used to internalise the cost of pollution.

(15 marks)

- (ii) Ronald Coase in his celebrated paper titled "The Problem of Social Cost" points out that taxing externality is not an efficient approach. Explain the Coasean approach to pollution in the carbon market.

(10 marks)

(Total: 25 marks)

Continued...

QUESTION 4

- (a) The principal-agent problem can be described and solved using an appropriate game theory.

With an appropriate diagram, describe an agency game without remedy, and an agency game with remedy.

(18 marks)

- (b) Explain the meaning of 'moral hazard' in the context of health insurance, and suggest two solutions to this problem.

(7 marks)

(Total: 25 marks)

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